

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY CLERK

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Elliott County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

The County Clerk had a deficit for 2004 in the amount of \$6,998. Since 2001, the County Clerk's cumulative deficit totals \$29,771.

Report Comments:

- County Clerk Reeda Ison Has A Cumulative Deficit of \$29,771 Owed To Taxing Districts
- The County Clerk Paid Herself \$2,683 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Request Training Incentive From Fiscal Court
- The County Clerk Did Not Reimburse The Fiscal Court For Employee Withholdings
- The County Clerk Inappropriately Issued W-2's To Employees
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Eight Months
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were fully insured by the Federal Deposit Insurance Corporation.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Elliott County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- County Clerk Reeda Ison Has A Cumulative Deficit of \$29,771 Owed To Taxing Districts
- The County Clerk Paid Herself \$2,683 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Request Training Incentive From Fiscal Court
- The County Clerk Did Not Reimburse The Fiscal Court For Employee Withholdings
- The County Clerk Inappropriately Issued W-2's To Employees
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Eight Months
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Elliott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 22, 2005

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Grant		\$	8,418
State Reimbursement			2,620
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	137,791	
Usage Tax		203,339	
Tangible Personal Property Tax		291,726	
Other-			
Marriage Licenses		1,311	
Deed Transfer Tax		9,017	
Delinquent Tax		51,162	694,346
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	4,849	
Real Estate Mortgages		6,119	
Chattel Mortgages and Financing Statements		20,168	
Powers of Attorney		330	
All Other Recordings		5,211	
Charges for Other Services-			
Candidate Filing Fees		57	
Copywork		504	37,238
Other:			
Vehicle Title Registration	\$	1,066	
Miscellaneous		3,433	4,499
Interest Earned			55
Total Revenues		\$	747,176

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 106,365

Usage Tax 196,820

Tangible Personal Property Tax 107,660

Licenses, Taxes, and Fees-

Delinquent Tax 5,385

Legal Process Tax 5,012 \$ 421,242

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 33,812

Delinquent Tax 5,713

Deed Transfer Tax 8,045 47,570

Payments to Other Districts:

Tangible Personal Property Tax \$ 135,919

Delinquent Tax 23,272 159,191

Payments to Sheriff 2,890

Payments to County Attorney 6,505

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 17,902

Part-Time Salaries 5,307

Contracted Services-

Contract Labor 158

Printing and Binding 3,239

Materials and Supplies-

Office Supplies 354

Other Charges-

Conventions and Travel 538

Dues 370

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges- (Continued)

Library and Archive Grant Expenditures	\$	8,418	
Notary Bond		20	
Postage		1,796	
Refunds		1,137	
Surety Bond		515	
Telephone		1,648	
Miscellaneous		1,147	
Capital Outlay-			
Office Equipment		135	\$ 42,684

Debt Service:

Copier Lease		2,473	
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Total Expenditures			\$ 682,555
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Net Revenues before unpaid expenditures			64,621
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Less: Unpaid Expenditures

State Delinquent tax	\$	526	
Due to the County-			
Tangible Personal Property Tax		2,898	
Delinquent Tax		536	
Deed Transfer Tax		488	
Other Districts Delinquent Tax		2,294	
Sheriff Delinquent Tax		180	
County Attorney Delinquent Tax		616	

Total Unpaid Expenditures			7,538
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Net Revenues			\$ 57,083
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Less: Statutory Maximum			60,313
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Excess Fees			\$ (3,230)
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Less: Expense Allowance	\$	2,683	
Training Incentive Benefit		1,085	3,768

Deficit			\$ (6,998)
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The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured by the Federal Deposit Insurance Corporation.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,417. Funds totaling \$8,417 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2004.

Note 5. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for the use of a copier. The agreement requires a monthly payment of \$135 for 60 months to be completed in June 2006. The total balance of the agreement was \$2,430 as of December 31, 2004.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank:		
2002 Fee Account	\$	1,433
2003 Fee Account		1,391
2004 Fee Account		25,528
Deposits in Transit		<u>3</u>
Total Assets	\$	28,355

Liabilities

Paid Obligations:

Outstanding Checks	\$	24,991
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Unpaid Obligations:

State-

Usage Tax - 2003	\$	1,391	
Delinquent Tax - 2004		<u>526</u>	\$ 1,917

Elliott County-

Tangible Personal Property Tax - 2001	\$	2,702	
Tangible Personal Property Tax - 2002		622	
Tangible Personal Property Tax - 2004		2,898	
Delinquent Tax - 2002		325	
Delinquent Tax - 2004		536	
Deed Transfer Tax - 2002		1,090	
Deed Transfer Tax - 2004		<u>488</u>	8,661

School-

Tangible Personal Property Tax - 2001	\$	7,790	
Tangible Personal Property Tax - 2002		8,155	
Delinquent Tax - 2004		<u>1,636</u>	17,581

Extension-

Tangible Personal Property Tax - 2001	\$	81	
Tangible Personal Property Tax - 2002		577	
Delinquent Tax - 2002		90	
Delinquent Tax - 2004		<u>150</u>	898

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS
 December 31, 2004
 (Continued)

Liabilities (Continued)

Health-			
Tangible Personal Property Tax - 2002	\$	433	
Delinquent Tax - 2002		82	
Delinquent Tax - 2004		<u>105</u>	\$ 620
Ambulance-			
Tangible Personal Property Tax - 2002	\$	1,439	
Delinquent Tax - 2004		<u>304</u>	1,743
Soil Conservation-			
Delinquent Tax - 2004			83
Solid Waste-			
Delinquent Tax - 2002	\$	56	
Delinquent Tax - 2004		<u>16</u>	72
Sheriff-			
Delinquent Tax - 2002	\$	237	
Delinquent Tax - 2004		<u>180</u>	417
County Attorney-			
Delinquent Tax - 2002	\$	527	
Delinquent Tax - 2004		<u>616</u>	<u>1,143</u>
Total Unpaid Obligations			<u>\$ 33,135</u>
Total Liabilities			<u>\$ 58,126</u>
Total Fund Deficit as of December 31, 2004			<u><u>\$ (29,771)</u></u>

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COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

1. County Clerk Reeda Ison Had A Cumulative Deficit of \$29,771 Owed To Taxing Districts

The County Clerk had a deficit of \$6,998 in her 2004 fee account. She did not pay taxing districts \$6,998 due to them for taxes collected on their behalf. However, the County Clerk received her full salary, \$2,683 of expense allowance and \$1,085 of training incentive. We have restated the 2003 deficit to be \$1,391 due to the Kentucky State Treasurer. We have restated the beginning January 1, 2004 cumulative deficit balance to be \$22,773. As of December 31, 2004 the cumulative deficit is \$29,771. This matter has been a repeat finding since 2001. We recommend that the County Attorney take necessary action to secure payment of these obligations to the Fiscal Court and taxing districts and notify GOLD when these payments have been made.

County Clerk's Response:

There can be no settlement until Judge Executive Charles Pennington signs the necessary paper work with KACO (Ohio Casualty Ins Co), so they can complete their work and settlement. In talking to KACO, Judge Executive Pennington refuses to sign for certified mail or any mail they send for his signature to complete so they can work on the robbery.

County Judge/Executive Charles R. Pennington's Response:

As stated in the auditor report this has been an ongoing problem with Reeda Ison, County Clerk since 2001. I am not aware of any paperwork from KACo and I have definitely not received any certified mail and have no knowledge about a robbery in the Office of Elliott County Clerk, Reeda Ison.

2. The County Clerk Paid Herself \$2,683 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations

The County Clerk received \$2,683 for her expense allowance for 2004, but did not pay amounts due taxing districts. KRS 64.017(2) states "if the amount of fees collected will not fund the full amount of the annual expense allowance, then the county clerk shall receive the excess of such fees after all other lawful expenses and salaries have been paid." At the end of 2004 the county clerk had unpaid delinquent taxes, tangible personal property taxes, and employee payroll withholdings. We recommend the county clerk not pay her expense allowance in the future until the fee account pays for all other expenses. We further recommend the County Clerk reimburse the 2004 fee account in the amount of \$2,683.

County Clerk's Response:

I was told when I first took office to write myself a monthly expense check each month.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

3. The County Clerk Should Request Training Incentive From Fiscal Court

The County Clerk earned \$3,093 in training incentive for 2004. The County Clerk only received \$1,085 from the 2004 fee account for training incentive. Due to the deficit for 2004, funds were not available for the payment of the remaining \$2,008 due for training incentive pay. KRS 64.5275(6) requires the County Clerk to be paid an annual incentive per calendar year for each training unit completed up to a maximum of four incentive payments. Since funds were not available from the 2004 fee account, payment is required to be made by the fiscal court, less applicable withholdings. We recommend the County Clerk request the Fiscal Court pay the remaining 2004 training incentive.

County Clerk's Response:

I have informed them on numerous occasions, one at Fiscal Court Meeting, that they owed me my Incentive Pay. They refused, saying that was a different situation, that I had to wait until the audit was over on the robbery.

4. The County Clerk Did Not Reimburse The Fiscal Court For Employee Withholdings

In December 2004, the County Clerk paid herself and her deputy clerk net payroll checks and never paid the applicable withholdings. Since the Elliott County Clerk does not have a tax identification number, she pays herself and her deputies a net check and then writes a check to the Elliott County Treasurer for the employee withholdings. For December 2004, the Elliott County Clerk did not pay her applicable withholdings. We recommend the County Clerk pay her 2004 withholdings.

County Clerk's Response:

We mailed out our December Employee Withholdings for Dec. 2004 as usual. When going thru our cancelled checks, there was no return of our check. They (Judge's Office) said they never did receive it.

5. The County Clerk Inappropriately Issued W-2's To Employees

Both the Elliott County Fiscal Court and the County Clerk prepared Form W-2 Wage and Tax Statements for the County Clerk office. Upon review, we noted these forms did not agree and could not determine which was correct. Neither could be reconciled to wage records maintained by the County Clerk. We will refer this matter to the Internal Revenue Service and the Kentucky Department of Revenue for review to ensure proper withholdings have been remitted. We further recommend the County Clerk not issue any tax statements since reporting responsibility rests with fiscal court, which holds the tax identification number.

County Clerk's Response:

In future the Judge-Executive Office will be doing all W-2s. We informed them that we did not have to do a W-2 since they sent in the money.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

6. The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court

The County Clerk did not present her annual settlement to the fiscal court. KRS 64.152 requires the County Clerk to present an annual settlement and to settle excess fees with the fiscal court by March 15 of each year. We recommend the County Clerk present her annual settlement to the fiscal court and pay excess fees by March 15 each year.

County Clerk's Response:

There has been no settlement to date as Judge Executive, Charles Pennington has failed to sign the necessary paperwork with KACO.

County Judge/Executive Charles R. Pennington's Response:

This problem has also been going on for several years. The fiscal court has not received an annual settlement or quarterly reports, budget, budget transfers, or budget amendments. These are obligations of the Clerk's Office. So therefore, the Elliott County Fiscal Court and County Judge/Executive has not had any knowledge for several years of what is going on in Elliott County Clerk Reeda Ison's Office.

7. The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Eight Months

The County Clerk was 3 to 8 months late in sending her quarterly financial reports to GOLD. GOLD requires Quarterly Financial Reports by the 30th day following the close of each quarter. The County Clerk is not following this policy. We recommend the County Clerk submit her quarterly financial reports within 30 days following the close of each quarter in the future.

County Clerk's Response:

My Bookkeeper who does the quarterly reports had surgery on her hands and was not able to work for a long period of time.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

8. The County Clerk's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The County Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The County Clerk should recount and deposit cash daily.
- The County Clerk should perform surprise cash counts.
- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The County Clerk should agree daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes.
- The County Clerk should reconcile the bank balance to the general ledger.
- The County Clerk should monitor and supervise the assigned responsibilities of her staff.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:
(Continued)

8. The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

County Clerk's Response:

I have one Deputy and myself, therefore the two of us have to know and be able to do all reports, recording, assisting customers, renewing license & transfers, etc.

PRIOR YEAR:

- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit Of \$31,642 In Her Fee Accounts
- The County Clerk's Office Lacks Adequate Segregation Of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Elliott County Clerk for the year ended December 31, 2004, and have issued our report thereon dated November 22, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- County Clerk Reeda Ison Has A Cumulative Deficit of \$29,771 Owed To Taxing Districts
- The County Clerk Paid Herself \$2,683 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Request Training Incentive From Fiscal Court
- The County Clerk Did Not Reimburse The Fiscal Court For Employee Withholdings
- The County Clerk Inappropriately Issued W-2's To Employees
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Was Delinquent In Submitting Quarterly Financial Reports To The Governor's Office For Local Development By Up To Eight Months

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 22, 2005

